

# **ZDMC: ZULULAND DISTRICT MUNICIPALITY 2012/2013 BUDGET**

## **PURPOSE**

To obtain approval of the 2012-2013 tabled budget

## **BACKGROUND**

### **MAYOR'S REPORT**

#### **1. The 2012/2013 budget**

##### **1.1. Legislative framework**

The 2012/2013 budget is prepared in accordance with the Local Government; Municipal Finance Management Act, 2003 and the Municipal Budget and reporting regulations issued by the Minister in terms of Section 168(1) of the Act. In terms of these regulations a multi-year budget spanning over three (3) years is prepared. It needs to be noted that the figures for 2013/2014 and 2014/2015 are indicative in terms of the medium term expenditure framework. The functions have been ring-fenced in terms of the Council vote structure

#### **2. Medium term service delivery objectives as stated in the Integrated Development Plan (IDP):**

- a. The medium term service delivery objectives of Zululand District Municipality includes the following strategic focus areas and objectives:
  - i. **Service delivery-** Primarily focusing on the eradication of water and sanitation backlogs through the implementation of regional schemes. Our ultimate objective is to progressively provide a cost effective, reliable water services at a good quality to all potential consumers in the district.
  - ii. **Economic development-** The objective is to improve the economy of the district through the creation of job opportunities and additional economic activities.
  - iii. **Social development-** The objective is to reduce the occurrence and impact of HIV/Aids and to develop and empower youth, gender and communities in the district.
  - iv. **Institutional development-** The focus is on employment equity with the objective of transforming the municipality and capacity development for effective service delivery.

- v. **Financial management-** our objective is to ensure sound financial management by promoting good financial practices with a view of ensuring a financially viable municipality.
- vi. **Good governance and public participation-** The objectives are to promote good governance, accountability and transparency; to operate the municipality at a minimum risk level.
- vii. **Other focus areas include:**
  - 1. Municipal airports
  - 2. Municipal roads
  - 3. Regulation of passenger transport services
  - 4. Fire fighting
  - 5. Disaster management
  - 6. Solid waste
  - 7. Municipal health services
  - 8. Regional fresh produce markets & abattoirs
  - 9. District cemeteries
  - 10. District tourism

### **3. Financial implications of the medium term service delivery objectives:**

As a water services authority, ZDM spends a substantial portion of the municipal infrastructure grant (MIG) on water and sanitation projects. The recovery rate of water tariffs is very low due to the fact that the population within the district is predominantly rural and poor such that the level of service in these areas take the form of communal stand pipes. As a result, the water is provided as a free basic service with no recovery at all.

As a rural node, the district does not have major industries and economic hubs. As a result, unemployment is rife and cross subsidization is not possible. Therefore, the district is heavily dependent on grant funding to implement its mandate in terms of the constitution of the Republic.

#### **3.1. Linkages between the budget, the IDP and political priorities**

Firstly, the budget timetable and the IDP process plan are aligned through an integrated time schedule.

Secondly, the IDP is prepared and the projects therefrom are included in the budget.

Moreover, the financial plan comprising the total budget, among other items, is included in the IDP.

Finally, the implementation of water and sanitation projects and other assigned functions through the structures Act constitutes compliance with National, Provincial and Local development goals to eradicate backlogs of the past.

3.2. The budget is summarized in more detail in the budget schedules. However, the comments on the budget are as follows:

MAIN BUDGET SUMMARY	2011/2012	2012/2013	CHANGE
Total operating budget	R344, 084,016	R 378,947,613	10%
Capital budget	R313, 052,000	R398, 018,516	27%
<b>Total budget</b>	<b>R657, 136,016</b>	<b>R776, 966,128</b>	<b>19%</b>

The total budget increased by R **122,874,781**

With the above background, it is important to highlight the major causes for such increases in both the operating and capital budgets. This will be done through the highlights section. Firstly, the operating budget will be reviewed. Thereafter, the Capital budget will be subjected to a review. The comments are as follows:

## 4. HIGHLIGHTS OF THE EXPENDITURE

### 4.1. OPERATING EXPENDITURE

#### ❖ Employee Related Costs

The employee related costs comprises 26% of the total operating budget. The primary reason for the 15% increase is the increment of 9.1% including the notch increases and new positions of five water tanker drivers, one fire engine driver, three fireman, two administration officers (1 n Tourism previously on the structure and 1 performance administration officer), Chief Accountant and a Customer Care Officer.

#### ❖ Remuneration of Councilors

A 9.1% increment for Councilor's remuneration is provided for.

#### ❖ Working Capital Reserve

This is the provision for doubtful debts as a result of a non-collection level. The 6% increase is based on the projected inflation level.

#### ❖ Depreciation

This is a non cash item budgeted for as per the stipulation of the new accounting standards and is funded from backlog depreciation. The 5% decreased is based preliminary 2012/2013 depreciation calculation.

❖ **Collection costs**

This is a provision for collection costs and legal fees by external parties. The provision has increased due to planned vigorous collection including the use of collection agents.

❖ **Repairs and Maintenance**

**Buildings**

The budgeted amount is for the maintenance of municipal buildings. Decreased by 50%

**Vehicles**

The 29% increased is provided for due to the high expenditure on maintenance of the water tankers and the poor conditions of vehicles. New water tankers were budgeted for to add to the existing fleet of vehicles and this will also necessitate maintenance.

**Operation Rural Water Schemes**

These funds are set aside for the maintenance of rural water schemes and to ensure sustainability of such schemes. The funds set aside for Repairs and Maintenance actually increased by **R 1,077,539**. In addition, new positions have been budgeted for the operation of new schemes that will be commissioned in the 2011/2012 financial year. The 6% increase is an inflation provision.

**Refurbishment and maintenance.**

The 21% increase is due to the fact that Water and sanitation treatment plants need to be refurbished regularly to ensure sustainable and reliable water supply. Moreover, the number of water scheme has increased.

❖ **Bulk Water Purification and Sewerage Treatment**

Bulk sewerage treatment and bulk water purification is based on the existing contract and there are no major increases except for the 6% provision increase. In addition a budget has been set aside for the purchase of raw water from the Department of Water Affairs (DWA). Previously DWA did not charge although they are legally authorized to.

Bulk electricity has also increased as a result of the expected above average increment by Eskom and the contribution towards the new electricity network for the Water and Waste Water Treatment plants.

❖ **Grants and Subsidies Paid**

The Grants and Subsidies have been phased out as there are no more grants received as part of equitable share. The only grants that are still payable to the local municipalities are the Tourism grants to local municipalities and the Water Services Provider grant to Abaqulusi local municipality.

❖ **General Expenses**

**Items with direct impact on communities include the following:**

	<b><u>R</u></b>
Disaster Portfolio Projects	1,267,200
Unallocated Projects	8,000,000
Poverty alleviation	1,750,000
LED	3,500,000
Community Development	1,750,000
Community Participation	1,200,000
Emergency water	20,000,000
Budget and IDP community participation	6, 000,000
Women's day celebration	600,000
Annual report back	528,000
Elderly function	1,500,000
Kids Christmas party	600,000
Marathon	540,000
KwaNaloga Games	2,500,000
Mayoral Cup	600,000
<b>LED Ward Projects (R60 000 per ward):</b>	
Abaqulusi	1,320,000
Edumbe	480,000
Pongola	840,000
Nongoma	1,260,000
Ulundi	1,440,000
Widows & Orphans (89x20, 000)	1,780,000
Tourism Portfolio Project	337,920
Youth Day Celebration	500,000
Youth Summit	250,000
Women Summit	264,000
Ingoma Dance Competition	300,000
Music Festival	900,000
Water Loss reduction	3 168 000
External Bursaries	625,000
Sports Development	600,000
Indegenous Games	300,000
Gender Conference	200,000
Disability Programmes	300,000
Princess Mandisi Health Care Centre	400,000

**Total Community and Social Expenditure**

**R 65,600,120**

## **4.2. CAPITAL EXPENDITURE**

The capital projects budgeted for are as follows:

**Revenue contributions (own funds)**

	<b><u>R</u></b>
Vehicles	3,440,732

Furniture and Equipment	416,800
Computers	1,109,856
Software & Licenses	1,404,480
Electronic Document Management System	615,648
New Offices	3,000,000
Meters	3,168,000
Water Tanker X2	4,000,000
WSP Store	2,000,000
Tractors X2	500,000

<b>Sub Total</b>	<b>R19,655,516</b>
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<b>DWA-Funds</b>	<b>R 81,100,000</b>
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*DWA Grant has increased by R26,100,000 from R55,000,000*

<b>MIG Funds</b>	<b>R275 487,000</b>
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*MIG has increased by R48 387 000 from R227 100 000 to R275,487,000*

<b>Airport Grant</b>	<b>R20,000,000</b>
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<b>Rural Roads Asset Management</b>	<b>R1,776,000</b>
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<b>TOTAL CAPITAL</b>	<b>R398,018,516</b>
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## 5. HIGHLIGHTS OF INCOME

### 5.1 OPERATING INCOME

The sources of funding are important to ensure that the budget is actually funded and cash backed. The following items warrant specific mention:

#### ❖ SALE OF WATER AND SEWERAGE FEES

Sale of water is based on the proposed tariff structure. The amounts budgeted for has not taken into account the payment level and as a result, an amount of R3,226,266 has been set aside as a provision for working capital reserve (provision for non collection).

#### ❖ INTEREST INCOME

Interest Income is expected to increase as a result of interest rates, from R12, 066,793 to R12, 566,926.

❖ **EQUITABLE SHARE**

Equitable share has been substantially increased by R24, 528,000 from R234, 326, 000 to R258, 854,000

❖ **PROVINCIAL GRANTS.**

Provincial grants are based on the provincial 2011/12 budget statements. The Airport grant increased from R10, 000,000 to R20,000,000 and the P700 grant of R14,000,000 was a once-off grant in 2011/2012.

**5.2 CAPITAL INCOME**

The capital expenditure shall be funded as follows:

Own revenue	R 19,655,516
MIG	R275, 487,000
DWAF	R 81,100,000
Airport Grant	R 20,000,000
Rural Roads Asset Management	R 1,776,000

<b>TOTAL</b>	<b>R398, 018,516</b>
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**6. FREE BASIC WATER**

Free Basic Water of 6 kilolitres per household per month is provided for. The present policy of providing free Basic Water for unmetered rural consumption remains unchanged. Free Basic Water is also provided in the rural schemes which are not breaking even or where the cost of billing and collection far exceeds the revenue to be derived from the scheme.

Any other consumption is billed at applicable tariffs. With water being a scarce resource, a stepped tariff is applied i.e. the consumer who consume more than 30,000 litres per month having to pay more. The tariffs are attached as annexure. A tariff increase of 6% on the tariffs applicable to the band of 7-30 kilolitres and 12% on the bands above 30 kiloliters. The proposed increase will be applicable to unequalised tariffs. Therefore this will be applicable to municipalities.

**7. BUDGET RELATED RESOLUTIONS**

**The council resolves that:**

1. That in terms of section 24 of the Municipal Finance Management Act 56 of 2003, the tabled budget of the municipality for the financial year 2012/13 and indicative allocations for the two projected outer years 2013/14 and 2014/15 be approved as set-out in the following tables:

- Table A1 Budget Summary.
  - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification).
  - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote).
  - Table A4 Budgeted Financial Performance (revenue and expenditure).
  - Table A5 Budgeted Capital expenditure by vote, standard classification and funding.
2. That the financial position, cash flow, cash backed reserve/accumulated surplus, asset management and basic delivery targets are adopted as set out in the following tables:
- Table A6 Budgeted Financial Position.
  - Table A7 Budgeted Cash Flows
  - Table A8 Cash backed reserves/accumulated surplus reconciliation
  - Table A9 Asset Management
  - Table A10 Basic service delivery measurements
3. The Municipal Manager to be authorized to proceed with the procedure as stipulated in the MFMA and in terms of the guidelines stipulated by the Minister in terms of Section 168(1) of the Act.
4. The grants be accepted and approved with appreciation.
5. The staff structure be approved as budgeted for.
6. The Quality Certificate be approved.
- 7 That the tariffs be approved.



## QUALITY CERTIFICATE

I, J.H. de Klerk, Municipal Manager of Zululand District Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act, and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

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J.H. de Klerk  
Municipal Manager  
Zululand District Municipality (DC 26)

Date: \_\_\_\_\_

